

APPLICATION NO. 10/698,040
 AMENDMENT OF FEB 1, 2008
 RESPONSE TO OFFICE ACTION OF 8-1-07
 REPLACEMENT SHEET

p.1

Fig. 1

Eq. 5a:

$$\frac{\partial C_i}{\partial \sigma} = \left(\frac{1}{R}\right)^{\times} \left[p \frac{\partial C_{i+1}^{up}}{\partial \sigma} + (1-p) \frac{\partial C_{i+1}^{down}}{\partial \sigma} + (C_{i+1}^{up} - C_{i+1}^{down}) \frac{\partial p}{\partial \sigma} \right]$$

Eq. 5b:

$$V_i = \left(\frac{1}{R}\right)^{\times} \left[p V_{i+1}^{up} + (1-p) V_{i+1}^{down} + (C_{i+1}^{up} - C_{i+1}^{down}) \frac{\partial p}{\partial \sigma} \right]$$

where $\frac{\partial p}{\partial \sigma}$ is computed from the defn. of risk neutral probability "p".

Eq. 6: $V_i = \frac{\partial S_i}{\partial \sigma}$